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REPORT BY THE U.S.

General Accounting Office

COMPLETED

Analysis Of Certain Aspects Of The Proposed Agricultural Efficiency And Equity Act Of 1985

The proposed Agricultural Efficiency and Equity Act of 1985 would change the manner in which the Department of Agriculture determines the amount of acreage and yields assigned to producers of wheat, feed grains, cotton, and rice under various farm programs. This report responds to questions raised by several Congressmen on the potential impact of the bill had it been in effect for prior years' programs.

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RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-217740

The Honorable Berkley Bedell
The Honorable Ron Marlenee
The Honorable Pat Roberts
The Honorable Charles Stenholm
House of Representatives

On April 5, 1984, you requested that we review several aspects of a proposed bill entitled the Agricultural Efficiency and Equity Act of 1983 (H.R. 4565). A similar bill, which has been reintroduced as H.R. 1912 in this Congress, would change the manner in which the Department of Agriculture (USDA) determines the acreage bases and yields assigned to producers under various farm programs. Acreage bases and program yields are two tools used by USDA in administering farm programs for producers of program crops--wheat, feed grains (barley, oats, corn, and grain sorghum), cotton, and rice. Base acreage and program yield determinations are key components in USDA's formula for computing the amount of payment producers receive for participating in farm programs. Essentially, base acres are the amount of land USDA recognizes that a producer historically plants to program crops. The yield is the production capacity USDA associates with a particular farm.

In requesting our analysis, your main concern was that USDA's administration of the Agriculture and Food Act of 1981 (the 1981 act) resulted in "inflated base acreage"--a condition in which a farm's base acreage has increased above the farm's usual planted acres, as well as "phantom acres"--a condition in which a farm's total base acreage exceeds the farm's total actual cropland.

In view of these concerns, you requested that we (1) identify the provisions of the 1981 act and its administration that have resulted in inflated and phantom acreage, (2) determine the extent to which the bill addresses this problem, and (3) determine what the acreage bases, program yields, and program payments would have been if the bill had been in effect instead of the 1981 farm act. In addition, you wanted our views on whether other commodities besides the program crops should be included in the bill, and of

the yield formula contained in the bill. Finally, you asked us to describe USDA's procedures covering double cropping--in which a producer plants two crops on the same acreage in the same year.

In summary, the 1981 act gives the Secretary of Agriculture discretion in establishing acreage bases for individual program crops. The Secretary's 1982 decision to establish base acreages by giving producers the highest base possible for each crop as permitted by the 1981 act has resulted in inflated acreage bases as well as phantom acres. The impact of this decision was carried forward in the 1983 and 1984 programs. The bill, with some revisions, would limit the acreage bases to reflect planted acres as well as revise the yield formula to reflect actual production and thus help eliminate phantom acres and inflated acreage bases, lower program yields, and reduce program payments.

For instance, if the bill had been in effect in 1983, the number of base acres in the 18 counties included in our review would have been reduced by about 534,800 acres, or about 12.5 percent. Regarding yields, we found that the bill would have had a limited impact on wheat and feed grains and a significant impact on cotton and rice. For example, the bill would have decreased 1984 yields by as much as 16 percent for cotton and about 9 percent for rice. Using the base acreage and yield determination procedures in the bill, we estimate that 1983 program payments for the 562 farms we reviewed would have been reduced by 16 percent, or $1.9 million. We caution, however, that this estimate assumes that farm program participation would have stayed the same under the bill and that supply, demand, and pricing of commodities would also have remained the same.

A more detailed discussion of these findings, as well as our responses to your other concerns, is included in appendix I. The appendix also provides general background information on USDA's farm programs, including the roles of acreage bases and program yields.

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To respond to your questions, we visited 18 counties in six states. We obtained program participation data on wheat and feed grains in Kansas, Iowa, Minnesota, and Nebraska and on cotton and rice in Arkansas and Texas. At these states, we reviewed data for 562 farms representing a cross-section of farm sizes. This approach permits us to project the impact that the bill would have on acreage bases for the major crops in the 18 counties included in our review. We also discussed each aspect of the bill with USDA officials in Washington and in the state and county offices we visited. A detailed explanation of our objectives, scope, and methodology is included in appendix I.

We discussed the report's contents with the Director of USDA's Cotton, Grain, and Rice Support Division, who provided clarifying language which was incorporated in the report. We did not request the Department of Agriculture to review and comment officially on a draft of this report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Agriculture; various Senate and House committees; Members of Congress; and other interested parties.

J. Dexter Peach
Director

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ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
GAO	General Accounting Office
OIG	Office of Inspector General
USDA	Department of Agriculture

ANALYSIS OF CERTAIN ASPECTS OF THE PROPOSED AGRICULTURAL EFFICIENCY AND EQUITY ACT OF 1985

FARM PROGRAM DESCRIPTION

Under the Commodity Credit Corporation Charter Act (15 U.S.C. 714), the U.S. Department of Agriculture (USDA) administers various farm price support programs to stabilize agricultural commodity markets and to control agricultural surpluses. These programs, which are administered through the Agricultural Stabilization and Conservation Service (ASCS), provide for commodity loans and purchases as well as price support and production adjustment payments to farmers. The system of production controls and the associated income and price-support programs are commonly referred to as farm programs. Participation in farm programs is voluntary and is available to producers of program crops--wheat, feed grains (barley, corn, grain sorghum, and oats), rice, and cotton. However, only producers that participate are eligible for the income and price supports offered by USDA.

The Agriculture and Food Act of 1981 (Public Law 97-98, 95 Stat. 1213) authorizes acreage reduction programs for the 1982-85 crops of wheat, feed grains, cotton, and rice. These programs permit USDA some control over production by requiring participating producers to take a certain percent of their cropland out of production in time of surpluses. For each of these commodities, the Secretary of Agriculture provides for an acreage reduction program if the Secretary determines that the total supply of the commodity will, in the absence of such a program, likely be excessive. In making the determination, the Secretary is to take into account the need for an adequate carryover to maintain reasonable and stable supplies and prices and to meet a national emergency.

Under farm programs, USDA establishes for each participating producer an acreage base and program yield. An acreage base is the amount of land USDA recognizes that a producer has historically planted to a program crop. A program yield is the production capacity associated with a particular farm. Combined, these are two of the key components of the formula USDA uses to make payments under its programs.

Because of the way the 1981 farm bill has been administered, phenomena called "inflated bases" and "phantom acreage" have occurred. Inflated bases is a condition in which a farm's base acreage has increased above the farm's usual planted acres. Phantom acreage is a condition in which a farm's total base acreage exceeds the total amount of cropland on a farm.

This bill changes the current system for determining acreage bases and program yields and puts the changes into permanent law, rather than 4-year authorizing legislation as is now the case. The overall purpose of the bill is to improve the management of farm programs by revising the methods used by USDA to administer

them. The bill is significant in that it calls for modifications to the way USDA determines the farm acreage bases and program yields for a particular producer. It also will have a significant impact on the payments USDA makes to producers participating in its programs.

OBJECTIVES, SCOPE, AND METHODOLOGY

This report discusses ASCS' current system of acreage bases and program yields and provides information on how H.R. 1912--the Agricultural Efficiency and Equity Act of 1985--would reform them. A similar version of this bill was orginally introduced as the Agricultural Efficiency and Equity Act of 1983 in the previous Congress. At that time, we were requested to do this analysis. In response to the request, our objectives were to determine (1) what provisions of the Agriculture and Food Act of 1981 and its administration have made it possible to have inflated bases as well as phantom acreage, (2) whether the bill effectively addresses this problem, and (3) what the acreage bases, program yield and program payments would have been if the bill had been in effect instead of the 1981 farm act. In addition, we reviewed whether other commodities besides the program crops should be included in the bill, and the yield formula contained in the bill. Finally, we determined the current USDA procedures covering double cropping--in which a farmer plants two crops on the same acreage in the same year.

We made this review in accordance with generally accepted government auditing standards. We did our audit work from May 1984 through December 1984 at ASCS' headquarters in Washington, D.C., at the ASCS commodity office in Kansas City, at six ASCS state offices, and at 18 ASCS county offices. (See app. II.) At these places, we interviewed ASCS officials and obtained information on the current base acreage and program yield system. We obtained and reviewed applicable legislation, implementing regulations, and pertinent ASCS policies and procedures. We also coordinated our work with USDA's Office of Inspector General (OIG) and reviewed its applicable reports.

We obtained program participation information on feed grains and wheat in Kansas, Iowa, Minnesota, and Nebraska and on cotton and rice in Texas and Arkansas. We selected these states because they account for about 43 percent of USDA's wheat and feed grain payments and about 51 percent of USDA's rice and cotton payments from October 1, 1982, through March 31, 1984.

We used a statistical sampling approach to assess the impact of variations in acreage bases and program yields for various crop years within the review counties. Our sampling approach required reviewing the data for 562 farms in 18 counties. The sample size was established on the basis of the total number of farms from each county. Generally, the higher the cropland acres in the county, the larger the sample size. The farms selected represent a cross section of farm sizes to include large and small farms.

This approach permitted us to project the impact that the bill would have had on acreage bases for the major crops in the 18 counties included in our review had the bill been in effect.

We obtained production data on each farm for a 6-year period, 1979 through 1984. This was the latest available data at the time of our review. To determine the cost of the 1983 and 1984 programs (assuming the bill was in effect), we used the prescribed payment rates set by USDA for its various programs.

We discussed the report's contents with the Director of USDA's Cotton, Grain, and Rice Support Division, who provided clarifying language, which was incorporated in the report. We did not request the Department of Agriculture to review and comment officially on a draft of this report.

UNDER CURRENT LAW, BASE ACREAGES HAVE BECOME INFLATED

For the 1982-85 crops, the 1981 act provided for the establishment of a separate acreage base for each program crop. Specifically, the 1981 act provided that the number of base acres for any farm would be the acreage planted to a program crop for harvest in the previous year or, at the discretion of the Secretary, the average acreage planted to the crop for harvest for the 2 previous years. In implementing this provision for 1982, the first year of implementation, the Secretary decided that the higher of either the 1981 planted acres or the average of the 1980 and 1981 planted acres would be used to establish the acreage base for each program crop grown on the farm. For the 1983 crop, the Omnibus Budget Reconciliation Act of 1982 provided that the acreage base should be the same as those established in 1982, except for adjustments to reflect such factors as crop-rotation practices. For 1984 the Secretary provided that the acreage bases would be determined by averaging the 1982 and 1983 planted acres. However, unlike the programs administered in 1982 and 1983, the Secretary determined that "considered" planted acres would also be included in deriving the average number of acres planted in the previous 2 years. Under USDA regulations, acreage that a farmer was prevented from planting to a program crop as a result of a natural disaster or acreage taken out of production to comply with any USDA acreage reduction program would be "considered planted" for program purposes and included as part of the base acreage computation.

The following table shows the impact of the 1982, 1983, and 1984 programs on base acreage determinations for a hypothetical 600-acre farm.

Table 1

Base Acreage Determination for a 600-Acre Farm

Program crop	Planted acres 1980	Planted acres 1981	Acreage base for program crops 1982 base[a]	1983 base[b]	1984 base[c]
Wheat	500	0	250	250	250
Sorghum	0	500	500	500	500
Total	500	500	750	750	750
Other crops	100	100			
Total acres	600	600			

[a]Higher of 1981 or average of 1980 and 1981 planted acres.
[b]Same base as 1982.
[c]Average of 1982 and 1983 planted and considered planted acres.

Because of the method of determining acreage bases, inflated acreage bases as well as phantom acres would have been established for this farm. Inflated acres exist because the total base acreages were increased by 250 acres--from 500 to 750. Phantom acres also exist because the crop acreage base exceeded the farm's total cropland by 150 acres.

Inflated bases also resulted in part because of the Secretary's definition of "considered planted" acres. Producers who have not planted a particular program crop but want to retain their acreage base for that crop, can certify that they have not planted the crop and are given full credit as if they had planted their acreage base for that year. This is done to take away the incentive to plant up to the maximum permitted for purposes of maintaining the established base.

Under the Secretary's definition, some producers were given credit for planting their entire crop base even though they planted less or did not plant any acreage to that crop. For example, a producer who participated in the 1984 programs with a corn base of 100 acres was required to take 10 percent, or 10 acres, out of production, leaving 90 acres available for planting. Under USDA program requirements, if the producer elected to plant only 50 acres, USDA would give the producer full credit for the 100 acres in calculating the base acreage for this farm.

In the above example, the producer could plant these acres to another program crop in which they were not participating in USDA farm programs and increase their base acreage for the nonparticipating crop for the next year while still carrying forward the full crop acreage base for the participating crop to future years.

THE BILL WOULD HELP CORRECT INFLATED AND PHANTOM ACREAGE CONDITION

Under the bill, a farm acreage base and a crop acreage base would be established for each farm that grows at least one program crop. The farm acreage base would be the 5-year moving average of the total acreage planted and considered planted to all program crops on the farm. The crop acreage base would be the 5-year moving average of the acreage planted and considered planted to each program crop grown on the farm. The sum of the crop acreage bases may not exceed the farm acreage base, except where the excess is due to an established practice of double cropping.

The bill would help eliminate inflated acreage bases and phantom acres. However, specific language is needed in the bill to clarify the term "considered planted" acres. For example, consideration should be given to not including farms that report zero planted acreage to a crop or that voluntarily reduce planted acres below program requirements. Currently, producers are given credit for acreage that he or she chose not to plant. This, in turn, would subsequently be included in a producer's base acreage determination. Also, in the case of a disaster crop, consideration should be given to allowing credit only for the disaster crop or the crop planted in its place.

We found that if the bill had been in effect (with clarifying language for considered planted acres) for the 1983 and 1984 crops of wheat, feed grains, cotton, and rice, there would have been a reduction in the amount of base acres producers could use for program purposes.

As the following table shows, applying the provisions of the bill to our 562 sample farms in 1984 would have decreased acreage bases about 29,000 acres, or about 14 percent.

Table 2

Comparison of USDA-Established Bases for Sample Farms With the Bill's Method of Computing Base Acres

Crop year	Program crops: Wheat	Feed grains	Cotton	Rice	Total
	(acres)				
1983:					
USDA bases	89,281.6	81,503.8	16,861.2	12,048.8	199,695.4
Bill bases[a]	78,687.4	69,009.0	15,824.9	10,131.7	173,652.9
Difference	10,594.2	12,494.9	1,036.3	1,917.1	26,042.5
Percent	**11.9**	**15.3**	**6.1**	**15.9**	**13.0**
1984:					
USDA bases	92,883.4	85,533.1	16,856.3	12,239.9	207,532.7
Bill bases	80,564.0	71,472.6	15,860.5	10,453.1	178,350.2
Difference	12,319.4	14,080.5	995.8	1,786.8	29,182.5
Percent	**13.3**	**16.5**	**5.9**	**14.6**	**14.1**

[a]For 1983 we used a 4-year average (1979-82) instead of a 5-year average as called for by the bill because program data were generally not available for 1978.

Note: Figures do not always add because of rounding.

Further, we estimate that for all farms in the 18 counties we reviewed, the USDA bases in 1983 would have been reduced by about 534,800 acres, or about 12.5 percent, had the bill been in effect.

THE BILL WOULD REDUCE YIELDS FOR COTTON AND RICE

We also compared the yield formula contained in the bill with the proven yield formula (determined on the basis of production records) used by USDA. Yields, like base acres, are used by USDA as a factor in determining the amount of program payments a participating farmer can receive.

For 1984 a comparison of USDA's proven yields with the yields computed using the criteria set out in the bill shows minor differences for wheat and feed grains and significant differences for cotton and rice. The results of our comparison are shown in the following table.

Table 3

Comparison of 1984 USDA Proven Yields for Sample Farms With Yields Established Under the Bill

Commodity	No. of farms[a]	1984 yields Per ASCS	1984 yields Per bill	Difference	Percent
Wheat (bu.)	73	43.0	42.9	0.1	0.2
Corn (bu.)	63	131.2	132.7	-1.5	-1.1
Sorghum (bu.)	25	81.5	77.9	3.6	4.4
Barley (bu.)	21	73.1	73.0	0.1	.1
Cotton (lbs.)	76	380.8	320.1	60.7	15.9
Rice (lbs.)	51	4,416.0	4,029.2	386.8	8.8

[a]All farms did not prove yields.

Under the bill, yields for all program crops would be determined by using harvested yields for the most recent 5-year period with such adjustments as the Secretary may prescribe. Generally, the highest and lowest yields would be eliminated and the remaining 3 years' yields would be averaged to obtain the yield for the farm. In contrast, USDA determines a proven yield for wheat and feed grain producers by using planted yields for the most recent 5-year period. However, if any year's yield is less than 80 percent of the 5-year average, that year can be increased up to 80 percent of the 5-year average. As table 3 shows, a comparison of these two yield determination methods (using planted yields) for 1984 wheat and feed grains results in very few differences.

For cotton and rice, USDA's yield determination method consists of computing an average yield for each producer using the highest yields for 4 of the last 5 years. If this average yield is higher than any of the yields for the most recent 3 years, this average yield is inserted in place of the lower yield(s). Once the yields for the most recent 3 years are adjusted (if necessary), an average is computed for this 3-year period, which then becomes the producer's current year yield for payment purposes. As table 3 shows, yield determinations for cotton and rice result in significant differences--16 percent and 9 percent, respectively--from USDA yields if the formula in the bill is used.

Overall, the yield formula contained in the bill improves on that now being used by USDA because it provides yield data that would be based entirely on actual production. However, as discussed on page 10, the formula contained in the bill may be more difficult to administer.

THE BILL WOULD REDUCE PROGRAM PAYMENTS

We found that program payments to the 562 farms in our sample would have been less for both the 1983 and 1984 farm programs had

the bill been in effect. However, we want to point out two key assumptions that we used in making our estimates. First, we assumed the same farmer participation levels that existed in 1983 and in 1984 and, second, we assumed that commodity supply and demand, as well as the price of commodities, would have remained the same in 1983 and in 1984 had the bill been in effect.

As the following table shows, we found that payments made to farmers for our 562 sample farms in 1983 would have been reduced by about $1.9 million, or 16 percent, had the bill been in place.

Table 4

Comparison of 1983 USDA Program Costs for Our 562 Sample Farms With Program Costs Estimated Under the Bill

Crop	No of counties	No. of farms[a]	1983 program costs		Differences	Percent reduction using bill
			Actual	Per bill		
Wheat	12	232	$ 4,038,100	$3,565,500	$ 472,600	11.7
Corn	9	185	4,097,800	3,527,400	570,400	13.9
Sorghum	7	75	466,800	341,000	125,900	27.0
Barley	2	51	239,600	196,400	43,200	18.0
Rice	2	51	1,726,000	1,356,400	369,700	21.4
Cotton	3	67	1,280,400	966,000	314,400	24.6
Total[b]			$11,848,700	$9,952,600	$1,896,100	16.0

[a]In some cases, farms had more than one participating crop.
[b]Figures do not always add due to rounding.

Note: The data obtained from our statistical sample of 562 farms is unweighted. This data should not be used to project to a larger universe than the farms actually included in our sample. Due to our small sample size, we could not project with a high degree of confidence to all the farms in the counties reviewed.

For 1984, the only commodity for which payments were made for taking land out of production was wheat. Accordingly, we estimated cost differences for that commodity. Our estimates show that for our sample farms, 1984 program payments would have been reduced by about $207,300, or about 8 percent, had the bill been in effect.

INCLUDING OTHER CROPS IN THE BILL

As the bill is now written, the farm acreage base would include program crops, plus soybeans. As a result, producers who grow soybeans would have increased flexibility as their farm acreage base would be higher and they could adjust their individual crop acreage bases more than if soybeans were not included.

Whether soybeans or other crops should be included in the bill is a policy matter for the Congress to debate and decide. However, if soybeans are included, as now proposed, consideration might be given to including other commodities to provide increased flexibility to producers of those commodities.

Including additional crops, other than program crops, would affect other aspects of farm management by increasing the producer's flexibility in planting crops and increasing the adjustments the producer can make in individual program crop acreage bases. Under the bill's provisions, a producer could adjust the acreage he or she plants to individual program crops by a maximum 20 percent the first year of implementation and 10 percent of the farm's acreage base each year thereafter.

For example, assume a producer with 400 acres has a wheat and a corn crop acreage base of 100 acres each, for a total base of 200 acres for these two program crops. In addition, this producer normally plants the program crops plus 100 acres of soybeans and 100 acres of sunflowers. This producer's farm acreage base as well as the flexibility to adjust the program crop plantings would vary depending on the number of crops included.

	Acreage base		
Crops	Crop acreage bases only	Crop acreage bases including soybeans	Crop acreage bases including all crops
	(acres)		
Wheat	100	100	100
Corn	100	100	100
Soybeans	-	100	100
Sunflowers	-	-	100
Total farm acreage base	200	300	400
Flexibility (20 percent of farm acreage base)	40	60	80

The flexibility a farmer may use in this situation is that the crop acreage base for any program crop may increase or decrease up to a maximum of 20 percent of the farm acreage base in the first year and up to 10 percent each year thereafter. Accordingly, by including additional crops and acres in the farm acreage base, a producer can increase flexibility in choosing the amount of acreage to plant to a particular program crop. For the first year, the farmer could increase plantings for corn by 40 acres to 140 acres when only program crops are used for determining the farm acreage base and by 80 acres to 180 acres when all crops are

used to determine the farm acreage base. However, it should be noted that any adjustments to individual program crops do not change the farm acreage base, so that if the acres planted to one program crop were increased, the acres planted to another program crop would have to be reduced by a like amount.

OBTAINING YIELD DATA AS PROPOSED IN THE BILL MAY PROVE DIFFICULT

The bill proposes a yield determination system that uses actual production evidence as the basis for assigning yields to farms. However, we have some observations that the Congress could consider on the difficulty of implementing such a system for all crops.

The yield formula in the bill uses harvested acres as the basis for determining annual program yields. Consideration should be given to using planted acres for harvest instead of harvested acres since (1) farm program payments are made on the basis of planted acres for harvest and (2) farmers currently report planted acres to USDA.

Further, for determining the yield for program payment purposes, the bill prescribes a procedure of averaging the actual annual yields per harvested acre determined for each of 3 years. Instead of using a simple average for determining average annual yields, consideration should be given to using a weighted average calculation that takes into account the total number of acres planted for harvest in determining program yields.

ASCS state and county officials told us that such a system would be time-consuming and costly and may not provide any better yield data than are now obtained. They said that, under current procedures, county ASCS offices can only accept as proof of production (1) certain warehouse documents, (2) storage bin measurements made by ASCS personnel, or (3) field appraisals by ASCS personnel. They further said that, because few wheat and feed grain producers now prove their yields, going to a system of all proven yields would greatly increase the workloads and that full-time staff could increase by as much as one to four people in each county. Another problem pointed out to us by ASCS officials was the inherent difficulties in verifying that producers do not comingle crops from different years or different farms.

DOUBLE CROPPING PRACTICES

As requested, we obtained information on USDA's procedures for double cropping practices. USDA currently defines double cropping as the practice of planting and harvesting two different crops from the same acreage in the same crop year. This includes situations where the first crop is destroyed after the crop's normal planting season but before harvest and another crop is planted and harvested. According to USDA officials, each of the

crops being doublecropped stands alone and the acreage reduction requirements that might apply are treated just as if the crops had been planted on different acreages.

APPENDIX II

STATES AND COUNTIES SELECTED FOR REVIEW

State	County	Farms reviewed
Arkansas	Desha	25
	Jackson	35
Iowa	Butler	22
	Calhoun	31
	Howard	18
	Kossuth	41
Kansas	Ford	40
	Franklin	13
	Smith	25
	Sumner	42
Minnesota	Freeborn	28
	Martin	31
	Norman	35
	Renville	41
	West Polk	52
Nebraska	Seward	22
Texas	Crosby	36
	Ellis	25
		562

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